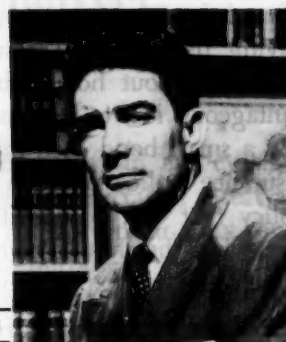


THE *Dan Smoot Report*



DAN SMOOT

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TAXES TAX EVASION

Official estimates (made by the Treasury Department's tax-analysis staff, and by the Commissioner of Internal Revenue) indicate that American citizens, each year, illegally conceal from tax collectors about 29.5 billion dollars of personal income. American citizens thus "cheat their government" out of about 5 billion dollars a year in tax revenue — revenue which, under the law, "belongs to the government." Inasmuch as the government "has to have the money" this 5 billion dollars a year — which "dishonest" Americans evade paying—must be added to the tax bills of honest citizens.

Who are these "dishonest" Americans who defraud their government and add to the tax burden of honest citizens?

They constitute, probably, a majority of the adult population in the nation. Literally millions of ordinary, low-income and medium-income American families — who look like decent, law-abiding citizens; who go to church regularly and contribute to charities; who scrounge and save and deny themselves luxuries to meet their responsibilities to family, God, and country: these are the law violators who conceal 29.5 billion dollars a year of personal income and thus evade paying their federal government 5 billion dollars in taxes. They do not smoke five-dollar cigars, or surround themselves with hired chorus girls, or ride in bullet-proof limousines, or travel under the protection of gunmen hired as bodyguards.

But they habitually commit a crime which real gangsters (since the example of Al Capone) are generally afraid to try: they conceal from the federal government, and therefore evade paying income tax on, a portion of their income.

Look at a family of young Americans. The man is 26, the woman 23. They have been married four years and have two children. The man makes \$4900.00 a year, but is with a good firm and has a reasonably promising future. They work out a family budget and live by it. A fixed percentage of their income goes into a savings account, which they will not touch except in cases

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of real family emergency. Being patriotic — and having listened to Treasury Department advertisements about how noble, and personally advantageous, it is to buy government bonds — they buy a small bond each month. They also buy an insurance policy on each child — a mutual-type policy that will pay a little dividend each year and, when the child is eighteen, have a cash value to help pay his expenses in college.

In about 80 cases out of 100, that young couple (the moment they work out such a budget and start living by it) become part of one of the biggest tax-evading operations in America, according to the tax laws of the land, and in the eyes of federal officials who try to enforce the laws.

Look at their family savings account: they add to it every payday, and leave it alone. As it earns interest, the bank or loan association adds the accrued interest to their account, and it starts earning interest.

At the end of the year, the young couple, when making out their federal income tax return, never think of their savings account — except, perhaps, to marvel that they have managed to save anything at all, taxes and living costs being as high as they are. And that's when these young Americans commit the crime that even the Mafia is afraid of: they do not report as income, and pay tax on, the interest that their savings account earned for them during the year.

Officials estimate that approximately 5.3 billion dollars in interest income is thus concealed from the federal tax collectors every year.

The government bonds which the young couple buy accumulate interest too, and that is not reported as income. If they cash the bonds in at maturity, they don't even report the accrued interest as capital-gain. In fact, they normally don't even know what a capital-gain is. They have heard the term and know it is a part of the tax jargon of this age — but they imagine it is some kind of fancy tax loophole made for the benefit of crooked

millionaires. Yet they, themselves, belong to the most numerous group of tax-evaders in this area. At present, American individuals hold approximately 38 billion dollars worth of Series E government savings bonds.

The present Commissioner of Internal Revenue, Dana Latham, says:

"Many people do not declare interest on bonds or savings accounts. In fact, I imagine most people do not, and large amounts from areas of that kind are undoubtedly escaping taxation."

In short, "many" — probably "most" — Americans who buy government savings bonds and establish family savings accounts, habitually commit the same violation of law that sent Al Capone to prison!

And look at those two college-fund insurance policies the young couple bought for their children. Every year, they get a small dividend check on each policy; but do they let the federal tax collectors know about it? Of course not.

Another large group of American "criminals" who violate the law that intimidates organized gangsterism includes housemaids, yard men, and farm hands. These people are not subjected to the withholding tax. In fact, many of these people — particularly the housemaids and yard men — wouldn't work for anyone who deducted anything from their wages. Most housemaids, yard men, and farm hands get *all* of their wages every payday, without any deductions for federal taxes. At the end of the year, they are supposed to report their total income and pay federal tax on it. How many of them do? Relatively few. Officials estimate that income concealed from federal tax collectors (by salaried persons not subject to withholding) totals about 12 billion dollars a year.

How about waitresses, porters, bell-boys, taxi drivers, head-waiters, shoe-shiners, and others who get tips for their services? Most of them are probably in the same "criminal" class with the young couple who conceal the interest income on their family savings account!

TAX LOOPHOLES

For many months, two powerful Congressional committees (the House Ways and Means Committee, and the Joint Committee on Internal Revenue) have been examining proposals for closing these tax "loopholes" which have made a majority of Americans violators of the law — and which "cheat" the government out of tax revenue on almost 30 billion dollars of income each year.

The only feasible proposal that has been made — in fact the only possible way to close the "loopholes" — is to require withholding, or collection at the source. But if you require banks and loan associations and insurance companies to keep books and serve as tax collectors (without remuneration, of course) for the government on all savings accounts and mutual-benefit type insurance policies, these firms, to remain solvent, would probably have to reduce their interest and dividend payments enough to meet the staggering costs of performing the free services for government.

This would no doubt create many new jobs for clerks and bookkeepers and for producers and salesmen of office equipment; and it would sharply reduce the number of family savings accounts and dividend-paying insurance policies. But it probably would *not* increase the government's tax revenue, because the cost of reporting and collecting would consume most of the interest and dividend income now being concealed.

If you required all housewives to deduct federal income tax from the wages of housemaids and yard men, you would probably eliminate the jobs of many housemaids and yard men. Housewives don't know how to perform the complicated bookkeeping which the government requires. Most of them would be afraid to try — lest they make an error and find themselves in court, being prosecuted for tax-dodging like common criminals.

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TAX-AVOIDANCE

Tax avoidance is different from tax evasion. Tax avoidance is legal and respectable. Great accounting firms, firms of tax lawyers, and tax counseling firms exist for the purpose of helping taxpayers avoid paying federal tax. Major national magazines, metropolitan newspapers, and widely syndicated columnists devote thousands of lines of space every year to articles and charts and miscellaneous advice to taxpayers on how to report and juggle income, expense, exemptions, and deductions in such a way as to arrive at the maximum in tax avoidance.

Private publishing firms publish books each year to help taxpayers avoid tax — and so does the Government Printing Office. The Internal Revenue Service itself operates a 'free' tax-avoidance consultation service for taxpayers. Every year, at federal-income-tax paying time, you can find crowds of people milling around every Internal Revenue Service office, getting official advice on permissible tax avoidance.

Under the preposterous taxing system which this great nation now has, tax-avoidance is the *major* activity of the ablest business and industrial (if not of the professional) leaders in the land.

If all the energy and ingenuity and time which now go into the necessary activity of tax-avoidance were devoted to creative and productive enterprise, we would see such an upsurge in our national living standard as no man, not even utopian dreamers, has ever imagined — not to mention a miraculous lifting of the intellectual, moral, artistic, and spiritual level of the people.

Contemplate the obvious effects of an income tax which begins at 20% of a person's taxable income and is steeply graduated to 91%. When the taxpayer's income rises to the 51% level — that is, when his income is big enough that taxes take 51% of what he makes — he must de-emphasize creative and productive activity, and con-

centrate on tax-avoidance activity. If he *earns* another dollar by his efforts, he will get to keep only 49¢ of it. If he can avoid paying tax on a dollar, he saves 51¢. Project this upward to the level where government takes 91% of the taxpayers' taxable income, and multiply that one dollar by hundreds of thousands — and it is easy to see why the ablest people in the country devote most of their productive time to elaborate and complicated manipulations to avoid tax.

A big family-owned company is often divided into 'trusts', set up in the names of children, and grand-children, and in-laws. This saves a great deal of tax, because the total income of the company is reported and taxed not as one big income, but as many smaller ones. Working out such an arrangement requires more effort on the part of the best brains in the company, than the activity of producing and buying and selling to serve the consuming public. Often, the payroll necessary for the company's tax-avoidance activities is much larger than its payroll for productive activities.

One odd accomplishment of our taxing system is to put a premium on waste and inefficiency. A company efficiently marketing a product or service which the public likes well enough to buy in large quantities, often becomes so successful that it must encourage extravagance in order to avoid taxes. Remember that when government seizes more than 50% of income, the taxpayer (whether an individual or a corporation) must pay more attention to avoiding tax payment on a dollar than on earning a dollar. Hence, along toward the end of a tax year, many firms which have operated efficiently and, thus, have done well, suddenly plunge into advertising programs which they don't really expect to be worth what they cost. Some buy supplies they don't need; some — if the tax men are clever enough to figure out how it can be 'expensed' — get new automotive equipment.

Around oil companies, the expression, "We've got to drill it up," is not infrequently heard dur-

ing the last quarter of the fiscal year: that is, they've got money which can be used for drilling wells but which, if not used, will increase the tax load. So, they drill — often in spots where no geologist expects them to strike anything. If they don't hit — 'tax' money paid for the dry hole. If they do hit, they can cap the well and use it later.

Thus, our present taxing system not only deflects the best efforts of the ablest people from creative and productive activities to tax-avoidance activity; but it also encourages a bureaucratic-type of waste and extravagance in the very people who have done well because they know how to operate efficiently. It does more than that: it takes many of our best people out of productive activity — or stifles their incentive for expanding — when they are in their prime and could contribute most to the economic well-being of the nation.

A man who has courage, integrity, luck, and genius in business or industrial enterprise amasses a respectable fortune by the time he is 55. Still strong and healthy and energetic, he has just reached the peak of his productive capacity. In his business activities (not to mention any 'civic' or charitable, or 'educational' work which he may have done), he has made a very great contribution to the general welfare of his fellow man — by producing something which people want, and selling it at a price which they are willing to pay. He, on top at age 55, is right at the point where he could begin to multiply his contribution to the general welfare; but he is a very unusual man if he does so.

There are no normal incentives to encourage continuation of his present contribution, much less expand it.

Amass more money to leave for his children? He has already provided for them with trusts and whatnot. If he accumulates more for them, death taxes will get most of it.

Feeling of responsibility for his employees? This, indeed, is a motive which keeps many a man going beyond the time when he would like to quit. But it is seldom, if ever, a motive to expansion.

The man — particularly if his business is 'unionized' by one of the big international unions — knows that his brains, and hard work, and capital have provided jobs for his employees, who would be hurt if he closed up and moved to Monaco; but he also knows that his employees do not, generally, share this knowledge. Very often, his own employees have been taught to hate him, because he has grown rich 'on their labors.' Not only union bosses are responsible for this attitude of his employees. The very churches and colleges and foundations which he supports with his contributions; the magazines and newspapers and broadcasting stations which he supports with his advertising; and the government which he supports with his taxes — all, in many instances, have produced and amplified the anti-business propaganda which has saturated the thinking of millions of Americans, making them envious and suspicious, if not downright hostile, toward the successful business man and his profits.

If a man knows that his business activity makes a great contribution to the general welfare, wouldn't his sense of social responsibility drive him on and override any petty, personal desires that he may have to quit or to 'get credit' for his contribution? If he is a perfectly ideal human being, yes; but if he is a normal son of Adam, there is not much incentive to contribute to the general welfare when his contributions frequently bring him the opposite of general acclaim.

The stultifying effect of our taxing system operates at low economic levels, too. There is many a good carpenter who works five days a week and would like to work six. There are many home-repair and small-office remodeling jobs he could get, and do on weekends. He could, generally, make a higher hourly wage on these weekend jobs than on his regular job; but, in many cases, he can't afford this, because the additional wage will push his income into a higher taxing bracket — possibly with the result that, instead of getting time-and-a-half for his weekend work, he will (after the federal tax collectors get their bite) get half-time. If he is desperate for income, he may do it. If not, he

won't; and there is, for this reason, an incalculable quantity of home-repairing and small-office remodeling that never gets done, and jobs for apprentices and helpers that are never created, and building supplies that never get sold — because of the stultifying effect of the federal income tax.

REVISING THE MESS

On November 16, 1959, the House Ways and Means Committee (the tax-writing committee of Congress, Wilbur Mills — democrat, Arkansas — Chairman) began formal hearings on the problem of revising our crazy taxing system.

The committee has heard experts from labor unions, universities, business, and governmental agencies. All witnesses agree that our tax system is an appalling mess of complicated inequities, which stifles initiative, wastes human energy and resources, and has a corrupting and debasing effect on people generally.

They also agree that the knottiest revenue problem under our present tax system is not the illegal tax-evasion which conceals 29.5 billion dollars a year from the tax collector and thus costs the government 5 billion dollars a year in taxes, but the legal and respectable activity of tax-avoidance which exempts more than 200 billion dollars a year from the federal income tax and costs the government 45 billion a year in tax revenue.

Every taxpayer participates in this "tax avoidance," and everyone would be affected by proposed reforms.

The biggest tax-avoidance is through personal exemptions. Every taxpayer gets a \$600 exemption for himself and \$600 for each dependent. This removes about 79 billion dollars a year from federal income taxation.

Personal deductions for contributions, interest payments, and payment of local taxes total about 40 billion dollars a year.

Co-operatives and other corporations operating as 'non-profit' institutions (for example, business firms owned and operated by churches and unions, exempt from taxation although they make profits and compete with tax-paying businesses) avoid paying tax on approximately 2 billion dollars every year.

Income-splitting for married people costs the government about 3.5 billion a year in tax revenue. Special rules for pension incomes (some exempt, some taxed at reduced rates, some given higher personal exemptions, etc.) cost the government 2.5 billion in taxes. Fast write-offs for business cost the treasury 2.1 billion a year. Favored rates on capital gains cost 2 billion; depletion allowances for oil and other natural resources cost the government 1 billion a year in tax revenue, and so on.

The total is around 45 billion dollars a year which American taxpayers legally avoid paying to the federal government in income tax.

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PROPOSED REMEDIES

Wilbur Mills, chairman of the House Ways and Means Committee, and also of the Joint Committee on Internal Revenue, favors a complete revolution in the American taxing system. Mr. Mills would keep the \$600 personal exemption for each taxpayer and for each dependent — but eliminate everything else now allowed as a deduction, and eliminate all special tax advantages now granted to innumerable classes of taxpayers, such as: depletion allowances for oil and other natural resources; tax exemption or reduced rates for 'non-profit' co-operatives; capital-gains; dividend income; pension income; sick-pay exemptions for workers; stock-option arrangements for business executives; tax-exemption on interest from municipal bonds; special rules on family partnerships; fast write-off arrangements; income splitting.

To compensate for thus extending the tax to approximately 200 billion dollars of income now excluded from taxation (or given special treatment) under the law, Mr. Mills would make a sharp reduction (about 40%) in all federal income tax rates — and graduate them less sharply: from 10 or 15% at the bottom to 60 or 75% at the top, as compared with the present graduation from 20% to 91%.

Mr. Mills says he is gaining powerful support, in Congress and in the country, for his revolutionary tax reforms, but no one expects anything to be done in the 1960 election year. Indeed, there are so many powerfully entrenched interests involved that fundamental changes in the present system are hardly conceivable, although everyone knows that the absurd system is approaching the point of collapse.

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SOME ENTRENCHED INTERESTS

One of the Wilbur Mills proposals which will evoke the most opposition is the elimination of tax exemptions for contributions to churches, recognized charities, foundations, and other 'non-profit' organizations.

This proposal might, if enacted, have a wholesome effect. Now, churches, foundations, and colleges — the three types of institutions which exert the most powerful influence on public opinion — have a vested interest in the awful, oppressive tax system which threatens to strangle the nation. Tax experts have devised, for example, a complicated system by which a wealthy man can actually make a profit by giving to tax exempt organizations.

Take a simple case for illustration: a man whose income is already in the top brackets has \$10,000 worth of stock which he bought several years ago for \$1,000. If he sells the stock, he will have to pay a capital gains tax: 25% of the \$9,000 increase. If

he keeps it, death taxes will take most of it. But if he figures out the legally correct way to give the stock to a tax-exempt organization, he can claim a \$10,000 deduction; and that would be worth 9 times as much to him as \$10,000 in additional income!

In short, many of the great philanthropies which buy fame and respectability for wealthy individuals, or corporations, are tax-avoidance schemes; and every tax-avoidance scheme shifts a heavier load onto people (generally, the very "little man" and "worker" whom politicians and everyone else are always pretending they want to help) who are in no position to avoid much tax.

In addition to giving the major opinion formers a vested interest in perpetuating our present tax system, our tax laws are sterilizing and removing from taxation mammoth sums of money by deflecting them into tax-exempt organizations. They are putting these huge funds in the hands of people who generally know little (or are actively hostile toward) the profit-motivated free enterprise system which produced the funds in the first place.

Church and foundation and college people will generally rise in wrath against any proposal to remove their tax-exempt status. But it should be removed. Indeed, church and foundation and college properties should be taxed equally with any other properties; and their 'non-profit' enterprises should pay the same kind of tax that other businesses pay.

The old notion that it is unconstitutional to tax church properties is absurd. The First Amendment says that Congress shall make no law respecting a religious establishment. When Congress enacts a tax law which gives special exemption to churches, it is making a law "respecting" them. To comply with the intent of the First Amendment, federal tax laws would have to ignore churches as religious establishments and subject them to whatever taxes other organizations bear. And the First Amendment does not apply, obviously, to property or other taxes which state and local governments might impose on churches.

Co-operatives are another entrenched interest which would lose its special privilege if Mills' tax reform were ever effected. Wilbur Mills and most witnesses before his committee ('liberal' and 'conservative' alike) admit the inequities of exempting co-operatives from the income tax that rival businesses must pay. Initially, co-operatives were combinations of small operators (farmers, merchants, and so on) who merely pooled their resources to compete (both in purchasing and in selling) with giant competitors. That served a good purpose, and some co-operatives still exist for that laudable reason. But many of the biggest co-operatives nowadays are tax-avoidance schemes.

Unions, being tax-exempt, have a vested interest in the present taxing system. Neither Wilbur Mills nor any witness before his committee has yet, to my knowledge, suggested removing the special tax-exemption that unions enjoy. Even business enterprises owned and operated by unions are often exempt from taxes which rival businesses must pay. It is not only inequitable but manifestly absurd to permit a rich, powerful, and growing financial interest like unions to operate as an insistent and clamorous lobby for more taxing and spending, while remaining exempt from the taxation which they want to impose on everyone else.

Oil interests will oppose any effort to remove their special tax privilege, the depletion allowance. Everyone ought to know that the oil business is hazardous, that it is a vital industry, and that it has contributed magnificently to the national welfare. But none of these things justifies giving it a tax privilege that other taxpayers do not have. One evil in the depletion allowance privilege for oil producers is the political bribery that it encourages. And I am not referring to the absurd case in 1956 when Eisenhower vetoed a good law which he said he favored (the Natural Gas Act) because oil money had lobbied for the law.

I am referring to Lyndon Johnson and some Texas oil men — most of whom know all about the ballot-box stealing which enabled Johnson to win his first election to the Senate by a plurality of

87 votes; most of whom know that Lyndon Johnson is and has been a new-deal socialist since he first went to Congress under the tutelage of Sam Rayburn and with the blessings of Franklin D. Roosevelt: yet many Texas oil men today are supporting Lyndon Johnson politically. Why? They may tell you it's because Johnson is more conservative than other potential candidates; but astute observers in Texas know it's because Johnson has put it to the oil men straight: they support him, and he'll protect their depletion allowance.

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THE CLINCHER

One of Wilbur Mills' proposals reveals that, however sensible and desirable many of his tax-reform suggestions may seem, the whole scheme is no real effort to lighten the tax-load and thus permit freedom to survive and flourish. The Mills tax reform would require home owners to report as income, and pay a tax on, the rental value of their own homes! And he admits that this would discourage home ownership and encourage the development of rent properties.

What it would actually do, of course, is to

stimulate public housing, and thus socialize this key industry. The Mills' tax reform proposals are, at bottom, an effort to shift the tax burden around a bit, and make it heavier. The political feasibility of this is that the proposed reforms look as if the number of voters who would be helped, initially, is bigger than the number who would be hurt.

The House Ways and Means Committee hearings on tax reform, and Chairman Wilbur Mills' proposals, have performed a valuable service to the nation. They have helped publicize the truly alarming tax situation which exists; and they have shown many thoughtful people that the complexities and tug of special interests make any reform of our present system quite impossible.

There is only one thing to do with our tax system: abolish it. U. S. Congressman James B. Utt (Republican, California) has a proposal before Congress that would do just that. The Constitutional Amendment which Congressman Utt proposes (H.J.R. 23) would also compel the government to obey the Constitution. If it did that, the federal government would need about one-fourth (or less) of the revenue it is now consuming; and that could be raised without a tax on personal incomes.

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WHO IS DAN SMOOT?

Dan Smoot was born in Missouri. Reared in Texas, he attended SMU in Dallas, taking BA and MA degrees from that university in 1938 and 1940.

In 1941, he joined the faculty at Harvard as a Teaching Fellow in English, doing graduate work for the degree of Doctor of Philosophy in the field of American Civilization.

In 1942, he took leave of absence from Harvard in order to join the FBI. At the close of the war, he stayed in the FBI, rather than return to Harvard.

He served as an FBI Agent in all parts of the nation, handling all kinds of assignments. But for three and a half years, he worked exclusively on communist investigations in the industrial midwest. For two years following that, he was on FBI headquarters staff in Washington, as an Administrative Assistant to J. Edgar Hoover.

After nine and a half years in the FBI, Smoot resigned to help start the Facts Forum movement in Dallas. As the radio and television commentator for Facts Forum, Smoot, for almost four years spoke to a national audience giving both sides of great controversial issues.

In July, 1955, he resigned and started his own independent program, in order to give only one side — the side that uses fundamental American principles as a yardstick for measuring all important issues.

If you believe that Dan Smoot is providing effective tools for those who want to think and talk and write on the side of freedom, you can help immensely by subscribing, and encouraging others to subscribe, to *The Dan Smoot Report*.